

Hillsdale County Medical Care Facility

**Financial Report
With Additional Information
December 31, 2003**

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Hillsdale County MCF</u>	County Hillsdale
Audit Date 12-31-03	Opinion Date March 11, 2004	Date Accountant Report Submitted To State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 67 West Michigan Avenue, Suite 500	City Battle Creek	State MI	ZIP 49068
Accountant Signature 			

Hillsdale County Medical Care Facility

Contents

Report Letter	1
Financial Statements	
Balance Sheet	2
Statement of Revenue and Expenses and Changes in Net Assets	3
Statement of Cash Flows	4-5
Notes to Financial Statements	6-14
Report Letter	15
Additional Information	
Schedule of Net Patient Revenue	16
Schedule of Operating Expenses	17



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Independent Auditor's Report

To the Hillsdale County Family Independence Agency Board
Hillsdale County Medical Care Facility

We have audited the balance sheet of Hillsdale County Medical Care Facility (a component unit of Hillsdale County, Michigan), as of December 31, 2003 and 2002, and the related statements of revenue and expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hillsdale County Medical Care Facility at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Facility adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as of January 1, 2003.

The Hillsdale County Medical Care Facility has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Plante & Moran, PLLC

March 11, 2004

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Hillsdale County Medical Care Facility

Balance Sheet

	December 31	
	2003	2002
Assets		
Current Assets		
Cash (Note 2)	\$ 262,952	\$ 669,122
Accounts receivable (Note 3)	1,149,516	1,174,697
Taxes receivable (Note 4)	605,650	579,277
Other current assets	85,019	93,328
Total current assets	2,103,137	2,516,424
Assets Limited as to Use - Cash (Note 2)	169,727	830,765
Property and Equipment (Note 5)	3,992,423	3,520,118
Total assets	<u><u>\$ 6,265,287</u></u>	<u><u>\$ 6,867,307</u></u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 7)	\$ 90,000	\$ 85,000
Accounts payable	278,463	186,867
Accrued salaries and related taxes	506,915	293,154
Accrued sick and vacation pay	189,305	178,777
Patient trust liability (Note 6)	13,678	16,742
Other accrued liabilities	215,454	383,330
Deferred proportionate share reimbursement revenue	92,344	140,883
Deferred tax revenue (Note 4)	605,650	579,277
Total current liabilities	1,991,809	1,864,030
Long-term Debt (Note 7)	1,885,000	1,975,000
Net Assets		
Invested in capital assets, net of related debt	2,017,423	1,460,118
Unrestricted	371,055	1,568,159
Total net assets	2,388,478	3,028,277
Total liabilities and net assets	<u><u>\$ 6,265,287</u></u>	<u><u>\$ 6,867,307</u></u>

Hillsdale County Medical Care Facility

Statement of Revenue and Expenses and Changes in Net Assets

	Year Ended December 31	
	2003	2002
Operating Revenue		
Net patient revenue	\$ 9,326,789	\$ 9,632,343
Proportionate share revenue	234,303	458,058
Other operating revenue	<u>97,286</u>	<u>91,261</u>
Total operating revenue	9,658,378	10,181,662
Operating Expenses		
Salaries	6,022,163	5,827,563
Other expenses	<u>4,791,130</u>	<u>4,553,694</u>
Total operating expenses	<u>10,813,293</u>	<u>10,381,257</u>
Operating Income (Loss)	(1,154,915)	(199,595)
Nonoperating Income (Expense)		
Property tax revenue (Note 4)	576,648	544,461
Interest income	30,753	27,032
Interest expense	<u>(92,285)</u>	<u>(96,195)</u>
Net nonoperating income	<u>515,116</u>	<u>475,298</u>
Increase (Decrease) in Net Assets	(639,799)	275,703
Net Assets - Beginning of year	<u>3,028,277</u>	<u>2,752,574</u>
Net Assets - End of year	<u><u>\$ 2,388,478</u></u>	<u><u>\$ 3,028,277</u></u>

Hillsdale County Medical Care Facility

Statement of Cash Flows

	Year Ended December 31	
	2003	2002
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	\$ 9,351,970	\$ 9,435,391
Cash received from proportionate share revenue	185,764	223,430
Cash received from other operating receipts	97,286	91,261
Cash paid to employees and suppliers	<u>(10,450,636)</u>	<u>(9,910,876)</u>
Net cash used in operating activities	(815,616)	(160,794)
Cash Flows from Noncapital Financing Activities		
Cash received from property taxes	576,648	492,473
Cash Flows from Investing Activities		
Patient trust deposits (withdrawals)	(3,064)	3,580
Interest received	<u>30,753</u>	<u>27,032</u>
Net cash provided by investing activities	27,689	30,612
Cash Flows from Capital Financing Activities		
Purchase of property and equipment	(678,644)	(141,300)
Interest payments on long-term debt	(92,285)	(96,195)
Principal payments on long-term debt	<u>(85,000)</u>	<u>(85,000)</u>
Net cash used in capital financing activities	<u>(855,929)</u>	<u>(322,495)</u>
Net Increase (Decrease) in Cash	(1,067,208)	39,796
Cash - Beginning of year	<u>1,499,887</u>	<u>1,460,091</u>
Cash - End of year (Note 2)	<u><u>\$ 432,679</u></u>	<u><u>\$ 1,499,887</u></u>

Hillsdale County Medical Care Facility

Statement of Cash Flows (Continued)

A reconciliation of operating income (loss) to net cash from operating activities is as follows:

	Year Ended December 31	
	2003	2002
Operating income (loss)	\$ (1,154,915)	\$ (199,595)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation	253,177	231,291
Provision for bad debts	361,367	-
(Increase) decrease in assets:		
Accounts receivable	(336,186)	(196,952)
Other assets	8,309	9,917
Increase (decrease) in liabilities:		
Accounts payable	44,758	(55,588)
Accrued liabilities	56,413	284,761
Deferred revenue - proportionate share	(48,539)	(234,628)
Net cash used in operating activities	<u>\$ (815,616)</u>	<u>\$ (160,794)</u>

At December 31, 2003, construction in progress included \$46,838 financed by accounts payable.

There were no noncash investing, capital or financing activities during the year ended December 31, 2002.

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 1 - Nature of Business and Significant Accounting Policies

The Hillsdale County Medical Care Facility (Facility) is a component unit of the County of Hillsdale.

The Facility is a 160-bed, long-term medical care unit owned and operated by Hillsdale County. It is governed by the Hillsdale County Family Independence Agency Board. This Board consists of three members, two of whom are appointed by the Hillsdale County Board of Commissioners, and one appointed by the Michigan Governor. Further, the Hillsdale County Board of Commissioners approves the budget for the Facility.

Enterprise Fund Accounting - The Facility uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Facility has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Basis for Presentation - The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. The Facility now follows the "business-type" activities reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the Facility's financial activities. There was no impact to the net assets of the Facility in adopting GASB No. 34.

Assets Limited as to Use - Assets limited as to use consist of cash and cash equivalents designated by the Family Independence Agency Board for future capital purchases.

Property and Equipment - All property and equipment are valued at historical cost. Donated assets are recorded at the fair market value at the time of the donation. Depreciation on such fixed assets is charged as an expense against the operations on a straight-line basis.

Sick and Vacation Pay - Sick and vacation pay are charged to operations when earned. Unused benefits are recorded as a current liability in the financial statements.

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Net Patient Revenue - Net patient revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Approximately 90 percent of the revenue from patient services is received from the Medicare and Medicaid programs. The Facility has agreements with the Medicare and Medicaid programs to provide reimbursement to the Facility at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Facility's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors follows:

Medicare - Services rendered to Medicare program beneficiaries are paid on a per diem basis at prospectively determined rates based upon clinical assessments completed by the Facility that are subject to review and final approval by Medicare.

Medicaid - Services rendered to Medicaid program beneficiaries are paid at prospectively determined rates based on a cost reimbursement methodology.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Proportionate Share Reimbursement Program (PSRP) - During the years ended December 31, 2003 and 2002, the Facility participated in the PSRP sponsored by the State of Michigan.

During 2003, two transactions were completed. The first transaction in September was recorded in revenue in relation to the State fiscal year that ended September 30, 2003. The second transaction in October was for the State fiscal year ending September 30, 2004 and therefore was recognized one quarter in revenue and three quarters in deferred revenue.

During 2002, two transactions were completed. The first transaction in September was recorded in revenue in relation to the State fiscal year that ended September 30, 2002. The second transaction in October was for the State fiscal year ending September 30, 2003 and therefore was recognized one quarter in revenue and three quarters in deferred revenue.

Reclassifications - Certain 2002 balances have been reclassified to conform with the 2003 presentations. These changes did not have any effect on the change in net assets.

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 2 - Cash

The Facility's cash is composed of the following:

	2003	2002
Current assets:		
On deposit with County Treasurer (1)	\$ 249,274	\$ 652,380
On deposit with banks (2)	<u>13,678</u>	<u>16,742</u>
Subtotal	262,952	669,122
Assets limited as to use:		
On deposit with County Treasurer (1)	<u>169,727</u>	<u>830,765</u>
Total cash	<u>\$ 432,679</u>	<u>\$ 1,499,887</u>

- (1) **Cash - County Treasurer** - These funds were under the control of the County Treasurer, who deposited these funds with a bank. It is impractical to determine the amount covered by federal depository insurance, as these funds are only a portion of the entire County deposits.
- (2) **Cash - Bank** - The deposits are reflected in the accounts of the bank (without recognition of checks written, but not yet cleared, or of deposits in transit) at \$39,593 and \$35,108 for the years ended December 31, 2003 and 2002, respectively. The federal depository insurance coverage pertains to all the deposits of the County; hence, the specific coverage pertaining to the Facility's deposits is not determinable.

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 3 - Accounts Receivable

The details of accounts receivable are set forth below:

	2003	2002
Patient receivables	\$ 2,214,428	\$ 1,889,484
Less allowances for uncollectible accounts	(700,000)	(962,000)
Medicaid interim payment receivable (advances)	(364,912)	247,213
Patient accounts receivable, net	<u>\$ 1,149,516</u>	<u>\$ 1,174,697</u>

Note 4 - Taxes Receivable/Deferred Tax Revenue

Taxes are levied on December 1 and payable by February 15. The cities and townships within the County bill and collect the property taxes for the County. County property tax revenue is recognized when levied to the extent that it results in current receivables within the year budgeted by the Board to provide resources for financing budgeted expenditures. Deferred property taxes are amounts levied at December 1 of the current year, but applied to future operations.

The County Medical Care Facility has had voter approval to levy up to \$.59 per \$1,000 of assessed valuation for the purpose of general operations of the Facility.

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 5 - Property and Equipment

Cost of property and equipment and depreciable lives are summarized as follows:

2003	Depreciable Life-Years	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Cost:					
Land improvements	10-25	\$ 29,524	\$ -	\$ -	\$ 29,524
Building and improvements	10-40	6,136,436	146,269	-	6,282,705
Equipment	4-20	619,496	89,766	-	709,262
Construction in progress		-	489,447	-	489,447
Total		6,785,456	<u>\$ 725,482</u>	<u>\$ -</u>	7,510,938
Accumulated depreciation:					
Land improvements		29,524	\$ -	\$ -	29,524
Building and improvements		2,752,278	216,154	-	2,968,432
Equipment		483,536	37,023	-	520,559
Total		<u>3,265,338</u>	<u>\$ 253,177</u>	<u>\$ -</u>	3,518,515
Net carrying amount		<u>\$ 3,520,118</u>			<u>\$ 3,992,423</u>
2002	Depreciable Life-Years	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Cost:					
Land improvements	10-25	\$ 29,524	\$ -	\$ -	\$ 29,524
Building and improvements	10-40	6,082,538	53,898	-	6,136,436
Equipment	4-20	532,094	87,402	-	619,496
Total		6,644,156	<u>\$ 141,300</u>	<u>\$ -</u>	6,785,456
Accumulated depreciation:					
Land improvements		29,524	\$ -	\$ -	29,524
Building and improvements		2,544,990	207,288	-	2,752,278
Equipment		459,533	24,003	-	483,536
Total		<u>3,034,047</u>	<u>\$ 231,291</u>	<u>\$ -</u>	3,265,338
Net carrying amount		<u>\$ 3,610,109</u>			<u>\$ 3,520,118</u>

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 6 - Patient Trust Liability

The State Department of Treasury requires facilities to administer and account for monies of patients. The patient trust liability on the balance sheet represents patient trust fund deposits at December 31, 2003 and 2002.

Note 7 - Long-term Debt

The Facility has entered into an agreement with the Hillsdale County Building Authority to make all principal and interest payments on \$2,300,000 in bonds issued during 1998 to construct an addition to the Facility. Principal payments range from \$90,000 in 2004 to \$185,000 in 2018 and interest rates range from 4.60 to 4.625% annually.

	Beginning Balance	Additions	Retirements	Ending Balance	Amount due within one year
2003	<u>\$ 2,060,000</u>	<u>\$ -</u>	<u>\$ 85,000</u>	<u>\$ 1,975,000</u>	<u>\$ 90,000</u>
2002	<u>\$ 2,145,000</u>	<u>\$ -</u>	<u>\$ 85,000</u>	<u>\$ 2,060,000</u>	<u>\$ 85,000</u>

The following is a schedule by years of future minimum principal and interest payments as of December 31, 2003:

	Principal	Interest
2004	\$ 90,000	\$ 88,910
2005	95,000	84,655
2006	100,000	80,170
2007	105,000	75,455
2008	110,000	70,510
2009 - 2013	640,000	269,290
2014 - 2018	<u>835,000</u>	<u>100,396</u>
Total	<u>\$ 1,975,000</u>	<u>\$ 769,386</u>

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 8 - Retirement Benefits

As disclosed in Note 1, the Facility is a component unit of Hillsdale County. Hillsdale County, including the Facility, participates in the Hillsdale County Employees Retirement Plan, a defined contribution pension plan that covers all employees of the County. The plan provides retirement, and death benefits to plan members and their beneficiaries. A copy of the most recent plan can be requested by writing to: County of Hillsdale, Courthouse, 29 N. Howell, Hillsdale, MI 49242.

The obligation to contribute to, and maintain the plan for these employees was established by negotiations with the County's competitive bargaining units, and requires an employee contribution of 2%. The Facility's contribution requirement is 4% of employee gross wages.

Facility contributions for the plan years ended December 31, 2003, 2002 and 2001 were \$213,768, \$188,834, and \$163,670, respectively.

Note 9 - Post-Retirement Benefits

The Facility provides health and life insurance benefits for retired employees. Substantially all of the Facility's employees may become eligible for the benefits if they reach normal retirement age while working for the Facility. Currently, approximately 15 retirees are receiving benefits. Included in the Facility's operating expenses is approximately \$62,000 for the cost of retirees' health and life insurance for each of the years ended December 31, 2003 and 2002.

Note 10 - Related Party Transactions

Maintenance of Effort (M.O.E.) is a county obligation to the State of Michigan. Every month, the State bills the County, at a per diem rate, for each Medicaid patient day at the Facility. Expenses relating to M.O.E of \$520,925 and \$458,245 for the years ended December 31, 2003 and 2002, respectively, are included in these financial statements as they are paid directly by the Facility out of voter approved millage funds.

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 11 - Risk Management

The Facility is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Facility is self insured for workers' compensation claims. Changes in the estimated liability, for the past fiscal years ended December 31, 2003 and 2002, were as follows:

	2003	2002
Estimated liability - Beginning of year	\$ 200,000	\$ -
Estimated claims incurred, including changes in estimates	248,333	442,156
Claim payments	(248,333)	(242,156)
Estimated liability - End of year	<u>\$ 200,000</u>	<u>\$ 200,000</u>

The Facility participates in the County's insurance plan with the Michigan Municipal Risk Management risk pool for claims relating to general (including malpractice) and auto liability, auto physical damage and property loss claims.

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the County.

There were no known pending lawsuits at December 31, 2003.

Additional Information



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To the Hillsdale County Family Independence Agency Board
Hillsdale County Medical Care Facility

We have audited the financial statements of Hillsdale County Medical Care Facility for the years ended December 31, 2003 and 2002. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of net resident revenue and operating expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

March 11, 2004

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Hillsdale County Medical Care Facility

Schedule of Net Patient Revenue

	Year Ended December 31	
	2003	2002
Daily Room Charges		
Medicaid	\$ 8,039,330	\$ 7,533,013
Medicare	542,828	469,814
Private pay and other	914,270	917,666
Total daily room charges	9,496,428	8,920,493
Ancillary Charges		
Drugs charged to patients	154,770	146,412
Physical therapy	623,595	572,815
Medical supplies	3,153	2,167
Oxygen	31,964	17,467
Radiology	5,582	3,321
Laboratory	23,012	17,875
Speech	73,790	78,390
Occupational therapy	352,120	312,734
EKG	4,115	3,290
Total ancillary charges	1,272,101	1,154,471
Gross patient charges	10,768,529	10,074,964
Revenue Deductions		
Provision for contractual discounts	1,080,373	442,621
Provision for bad debts	361,367	-
Net Patient Revenue	\$ 9,326,789	\$ 9,632,343

Hillsdale County Medical Care Facility

Schedule of Operating Expenses

	Year Ended December 31			
	2003			2002
	Salaries	Other	Total	Total
Administration	\$ 553,701	\$ 351,013	\$ 904,714	\$ 875,683
Maintenance	139,612	353,535	493,147	537,554
Laundry	242,776	37,754	280,530	279,784
Housekeeping	326,443	32,629	359,072	356,108
Dietary	672,431	488,992	1,161,423	1,132,940
Lab and X-ray	-	17,016	17,016	13,127
Nursing	3,562,628	462,934	4,025,562	3,779,674
Physical therapy	133,164	190,672	323,836	289,349
Speech	-	42,525	42,525	36,761
Occupational therapy	156,271	6,359	162,630	152,669
Diversional therapy	235,137	21,759	256,896	241,545
Pharmacy	-	206,352	206,352	196,124
Barber and beauty	-	65	65	629
Fringe benefits	-	1,805,423	1,805,423	1,799,774
Depreciation	-	253,177	253,177	231,291
Maintenance of effort	-	520,925	520,925	458,245
2003 Total	<u>\$ 6,022,163</u>	<u>\$ 4,791,130</u>	<u>\$ 10,813,293</u>	
2002 Total	<u>\$ 5,827,563</u>	<u>\$ 4,553,694</u>		<u>\$ 10,381,257</u>

March 17, 2004

To the Hillsdale County Family Independence Agency
Hillsdale County Medical Care Facility

In planning and performing our audit of the financial statements of Hillsdale County Medical Care Facility for the years ended December 31, 2003, we considered the Facility's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the Facility's ability to record, process, summarize and report financial data consistent with management's assertions inherent in the financial statements. This report contains items considered to be reportable conditions, as defined above, as well as other items we feel warrant your consideration.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by the employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable conditions that we believe to be material weaknesses.

Account Reconciliations

A good system of internal accounting control includes timely reconciliation of all major general ledger balance sheet accounts. The majority of all of Hillsdale County Medical Care Facility's general ledger accounts were not reconciled consistently throughout the year. While performing our audit, we prepared twenty-one journal entries to adjust the books to follow generally accepted accrual accounting principles and to adjust account balances to reconciled amounts. As stated above, nearly all of the Facility's balance sheet accounts required significant adjustments. Please see the attachment which summarizes the audit adjustments and the impact on the Facility's net loss for 2003.

As a result of such significant audit adjustments, it appears that monthly financial information provided by the Business Office may not be as accurate as desired and caution should be exercised when making decisions based upon this information.

We believe there is a general misunderstanding of how we define reconciling an account to what your staff considers reconciling an account. In our realm of reconciling, we mean having subsidiary ledgers, supporting documentation, or other sources of information agree to balances in the general ledger. This covers cash – reconciling to County documents, accounts receivable – reconciling to accounts receivable detail reports, which are further supported by charges and remittance advices, accounts payable – reconciling to open invoices and the auditor reports as generated by MDI, long-term debt – reconciling to bond documents, etc. What we see happening under your definition of “reconciling” is that cash is counted and recounted, tapes are run and rerun, deposits made to the County, transfers requested to cover cash outflows for disbursements and payroll and cash is considered “reconciled”. Attempts were made to truly reconcile the balance on the Facility’s books to the balance at the County, and for a few months was successful in doing so, but differences totaling approximately \$28,000 arose at year end.

Historically, HCMCF has not used a general ledger to present financial information to its Board and what does get presented may reconcile to tapes run by various business office staff, however these balances are not really reconciled to the general ledger, which is the ultimate source for the financial statements. What the Board is seeing is not a financial statement but rather a monthly cash balance, which doesn’t present the entire picture of what is happening at the Facility from a financial standpoint.

A good system of internal accounting control includes timely reconciliation of all major general ledger accounts. To assure that all transactions are being properly recorded and that errors and irregularities are identified in a timely manner, the general ledger accounts should be reconciled to detail records on a monthly basis. If there are reconciling items, adjustments can be made so the accounting records will accurately reflect the Facility’s combined financial condition and operating results. With monthly reconciliations in place, the financial packages distributed to the board will more accurately reflect monthly general ledger activity. Timely reconciliations are very important and should be reinforced through management review of the process.

Proper training, guidance, and mentoring of the accounting staff are key to reconciling major accounts on a timely basis.

Since last year, improvements were seen in several areas, and having a full year on one general ledger system was a benefit. However, the only person responsible for the general ledger, has little understanding of accrual basis accounting concepts, and had family challenges during the year. There are still significant improvements that should take place in the business office.

Accounts Receivable

Resident accounts receivable are still an area of concern. The accounts receivable, net of prebills, are \$2.2 million, with 35% being more than 90 days old. The private pay and other insurance categories have increased to 22% of the total accounts receivable, up from 16% last year. Although progress has been made to reconcile detail subsidiary ledgers to those balances on the balance sheet, the older balances are still significant, and accounts totaling \$410,000 will need to be written off to the bad debt allowance during 2004. Taking into consideration the total balance of accounts receivable at December 31, 2003, the average number of days it takes the Facility to collect its accounts is 85, which is well in excess of the averages we see at other MCF’s, which runs around 35 days to collect their outstanding accounts receivable.

Care should be taken to post remittance advices properly and timely. Be cognizant of rate changes and adjusting for these items in the resident AR balances immediately upon notification. Every year you should account for 52 Medicaid remittance advices, and question all open accounts over 90 days old.

Internal Controls

To determine our auditing procedures for the purpose of expressing our opinion on the financial statements, we considered the Facility's internal control structure. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control.

During our testing of controls related to the payroll system, it was noted that the amount being deducted for health insurance had not been updated for one individual to properly reflect 2002 to 2003 rate increases. Employee files should be updated annually and adjustments made to both electronic and paper files should agree to ensure proper payments are made to all parties involved.

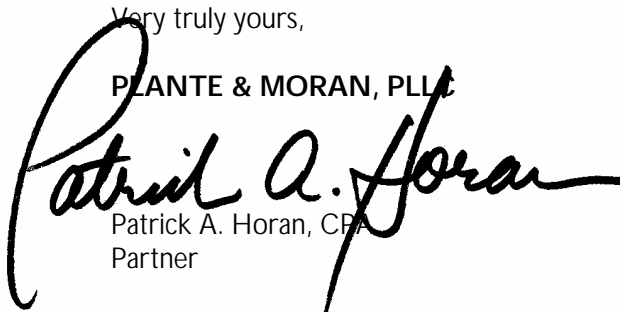
An overall observation of the business office is that the staff is constantly interrupted by phone calls and questions, which does not allow them to focus on their assigned tasks, be it billing, accounts payable or payroll. These distractions can lead to mistakes in postings and items being overlooked.

It was also noted that many other functions within the business office are still being performed using manual methods and often do not follow any form of established or recognized policy or procedure. The lack of operational structure, as well as a noted unfamiliarity of how to utilize available levels of technology, are significant contributors to the types of errors noted above.

If we can be of any assistance in clarifying or providing greater detail with regard to any of these areas, please give me a call at 269.962.4079.

Very truly yours,

PLANTE & MORAN, PLLC

A large, stylized handwritten signature in black ink, reading "Patrick A. Horan". The signature is written over the printed name and title.

Patrick A. Horan, CPA
Partner